AVTOVAZ GROUP

INTERNATIONAL FINANCIAL REPORTING STANDARDS
CONSOLIDATED FINANCIAL STATEMENTS
AND AUDITOR'S REPORT
31 December 2003

AVTOVAZ GROUP
Consolidated Financial Statements and Auditor's Report
31 December 2003

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AUDITOR'S REPORT

To the Shareholders of JSC AVTOVAZ:

1. We have audited the accompanying consolidated balance sheet of JSC AVTOVAZ (the "Company") and its subsidiaries (the "Group") as of 31 December 2003 and the related consolidated statements of income, of cash flows and of changes in equity for the year then ended. These financial statements (as set out on pages 1 to 28) are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. Except as disclosed in the following paragraph, we conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. We were unable to perform sufficient audit procedures regarding the financial information of one of the Group's principal subsidiaries, ZAO CB Avtomobilny Bankirsky Dom, which was audited by another auditor. The total assets and total liabilities of this subsidiary as at 31 December 2003, and the net profit for the year then ended, included in these consolidated financial statements are RR million 3,972, 1,364 and 266 respectively, representing 3%, 2% and 9% of respective Group balances.

4. As discussed in note 15, as at 31 December 2002 development costs relating to a new range of vehicles amounting to RR 714 million were capitalized. In our opinion, the recognition criteria in IAS 38, "Intangible assets", were not met as at 31 December 2002, and therefore, assets and retained earnings have been overstated by RR 714 million as at and for the years ended 31 December 2002 and 2003 and expenses were understated by RR 714 million for the year ended 31 December 2002.

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5. In our opinion, except for the effects of adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the matter referred to in paragraph 3, and except for the effect on the consolidated financial statements of the matter referred to in paragraph 4, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2003, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

6. Without further qualifying our audit report, we draw attention to Note 2. US Dollar (US$) amounts presented in the consolidated financial statements are translated from RR as a matter of arithmetic computation only, at the official rates of the Central Bank of the Russian Federation at the relevant dates. The US$ amounts are presented solely for the convenience of the reader and should not be construed as a representation that the RR amounts have been or could have been converted to US$ at this rate, nor that the US$ amounts present fairly the financial position of the Group or its results of operations or cash flows in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

Moscow, Russian Federation
21 July 2004

AVTOVAZ GROUP
Consolidated Balance Sheet at 31 December 2003
(In millions of Russian Roubles)
(Amounts translated into US dollars for convenience purposes, Note 2)

	RR million		Supplementary (Note 2.2) US$ million
	31 December 2003	31 December 2002 (restated)	**Unaudited** 31 December 2003
ASSETS			
Current assets:			
Cash and cash equivalents (Note 9)	**6,767**	2,751	230
Trade receivables, net (Notes 8 and 10)	**7,202**	8,247	244
Financial assets at fair value through profit and loss (Note 11)	**4,359**	1,154	148
Other current assets (Note 12)	**6,499**	5,508	221
Inventories (Note 13)	**19,009**	18,484	645
Total current assets	**43,836**	36,144	1,488
Non-current assets:			
Property, plant and equipment (Note 14)	**104,350**	100,383	3,543
Available-for-sale financial assets (Note 16)	**675**	466	23
Investments in associates and joint ventures (Note 17)	**866**	754	29
Development costs (Note 15)	**1,699**	714	58
Other assets	**638**	519	22
Total assets	**152,064**	138,980	5,163
LIABILITIES & EQUITY			
Current liabilities:			
Trade payables current (Note 8 and 18)	**17,495**	17,444	594
Other payables and accrued expenses (Note 19)	**5,743**	9,991	195
Current taxes payable other than income tax (Note 22)	**4,289**	2,927	146
Provisions (Note 20)	**1,732**	2,189	59
Short-term debt (Note 21)	**11,852**	9,296	402
Advances from customers	**5,635**	1,061	191
Total current liabilities	**46,746**	42,908	1,587
Non-current liabilities:			
Long-term debt (Note 21)	**10,587**	4,005	359
Long-term taxes payable (Note 22)	**4,405**	4,491	149
Deferred tax liability (Note 31)	**10,824**	10,762	368
Total liabilities	**72,562**	62,166	2,463
Equity			
Share capital (Note 23)	**28,890**	28,890	981
Currency translation adjustment	**1,289**	1,119	44
Retained earnings	**48,033**	45,218	1,631
Total shareholders' equity	**78,212**	75,227	2,656
Minority interest (Note 2.3)	**1,290**	1,587	44
Total equity	**79,502**	76,814	2,700
Total liabilities and equity	**152,064**	138,980	5,163

V. Vilchik
President – General Director
21 July 2004

N. Khatuntsov
Chief Accountant

The accompanying notes 1 to 37 are an integral part of the consolidated financial statements.

AVTOVAZ GROUP
Consolidated Statement of Income for the year ended 31 December 2003
(In millions of Russian Roubles, except for earnings per share)
(Amounts translated into US dollars for convenience purposes, Note 2)

	RR million		Supplementary (Note 2.2) US$ million
	Year ended 31 December		
	2003	2002 (restated)	**Unaudited** 2003
Net sales (Note 24)	**130,772**	119,432	4,261
Cost of sales (Notes 25 and 29)	**(110,003)**	(99,331)	(3,584)
Gross profit	**20,769**	20,101	677
Administrative expenses (Notes 26 and 29)	**(8,676)**	(9,046)	(283)
Distribution costs (Note 29)	**(4,128)**	(2,947)	(135)
Research and development expenses (Notes 27 and 29)	**(628)**	(1,425)	(20)
Other operating expenses (Note 28)	**(1,854)**	(935)	(60)
Loss from change of fair value of financial assets at fair value through profit and loss and available-for-sale financial assets, net	**-**	(157)	-
Negative goodwill (Note 7)	**458**	-	15
Operating income	**5,941**	5,591	194
Finance costs – net (Note 30)	**(3,708)**	445	(121)
Income from associates and joint ventures	**333**	24	11
Profit before taxation	**2,566**	6,060	84
Income tax credit/(expense) (Note 31)	**385**	(4,932)	12
Net profit	**2,951**	1,128	96
Attributable to:			
Equity holders of the Company	**3,034**	1,124	99
Minority interest (Note 2.3)	**(83)**	4	(3)
	2,951	1,128	96
Weighted average number of shares outstanding during the period (000's)	**14,445**	14,980	14,445
Earnings per share (basic/diluted) (in RR and US $) (Note 32)	**210**	75	7

AVTOVAZ GROUP
Consolidated Statement of Cash Flows for the year ended 31 December 2003
(In millions of Russian Roubles)
(Amounts translated into US dollars for convenience purposes, Note 2)

	RR million		Supplementary (Note 2.2) US$ million
	Year ended 31 December		
	2003	2002 (restated)	**Unaudited** 2003
Cash flows from operating activities:			
Profit before taxation	**2,566**	6,060	84
Adjustments for:			
Depreciation	**6,293**	5,869	205
Provision for impairment of receivables	**110**	(55)	4
Provisions	**121**	347	4
Interest expense	**3,416**	3,077	111
Gains on forgiveness of tax debt and restructuring of other debt	**(325)**	(601)	(11)
Loss on disposal of property, plant and equipment	**510**	229	17
Loss from change of fair value of financial assets at fair value through profit and loss, net (Note 16)	**-**	157	-
Income from associates and joint ventures	**(333)**	(24)	(11)
Reversal of impairment loss on property, plant and equipment (Note 14)	**(501)**	(1,902)	(16)
Impairment loss on available-for-sale financial assets (Note 16)	**584**	-	19
Negative goodwill (Note 7)	**(458)**	-	(15)
Loss on disposal of investments	**256**	156	8
Unrealised foreign exchange effect on non-operating balances	**507**	1,226	16
Monetary effect on non-operating balances	**-**	(2,239)	-
Operating cash flows before working capital changes	**12,746**	12,300	415
(Increase)/decrease in gross trade receivables	**(519)**	868	(17)
(Increase)/decrease in prepaid expenses, advances and other receivables	**(4,342)**	67	(141)
Increase in inventories	**(525)**	(4,036)	(17)
(Decrease)/increase in trade payables and other payables and accrued expenses	**(1,342)**	609	(44)
Increase/(decrease) in other taxes payable	**2,051**	(497)	67
Increase/(decrease) in advances from customers	**4,575**	(3,169)	149
Cash provided from operations	**12,644**	6,142	412
Income tax paid	**(1,671)**	(2,531)	(54)
Interest paid	**(3,660)**	(1,050)	(120)
Net cash provided from operating activities	**7,313**	2,561	238
Cash flows from investing activities:			
Purchase of property, plant and equipment	**(9,210)**	(7,994)	(300)
Proceeds from the sale of property, plant and equipment	**225**	358	7
Proceeds from the sale of investments	**49**	80	2
Purchase of investments	**(726)**	(296)	(24)
Business combination (Note 7)	**(68)**	-	(2)
Net cash used in investing activities:	**(9,730)**	(7,852)	(317)
Cash flows from financing activities:			
Proceeds from borrowings	**19,570**	12,932	638
Repayment of loans and long-term taxes payable	**(12,905)**	(8,741)	(421)
Purchase of treasury shares	**-**	(400)	-
Dividends paid	**(219)**	(164)	(7)
Net cash provided from financing activities	**6,446**	3,627	210
Effect of inflation on cash and cash equivalents	**-**	(234)	-
Effect of exchange rate changes	**(13)**	80	-
Effect of translation	**-**	-	12
Net increase in cash and cash equivalents	**4,016**	(1,818)	143
Cash and cash equivalents at the beginning of the period	**2,751**	4,569	87
Cash and cash equivalents at the end of the period (Note 9)	**6,767**	2,751	230

The accompanying notes 1 to 37 are an integral part of the consolidated financial statements.

AVTOVAZ GROUP
Consolidated Statement of Changes in Equity
for the year ended 31 December 2003
(In millions of Russian Roubles)
(Amounts translated into US dollars for convenience purposes, Note 2)

In RR million	Share capital	Treasury shares (Notes 7.1 and 23)	Currency translation adjustment	Retained earnings	Attributable to equity holders of the Company	Minority interest (Note 2.3)	Total equity
Balances as of 31 December 2001 (as reported)	**64,251**	**(34,058)**	**961**	**32,725**	**63,879**	**12,284**	**76,163**
Effect of changes in accounting policy (Note 2.3)	-	-	-	10,701	10,701	(10,701)	-
Balances as of 31 December 2001 (as restated)	**64,251**	**(34,058)**	**961**	**43,426**	**74,580**	**1,583**	**76,163**
Sale of treasury shares (ordinary)	-	428	-	(428)	-	-	-
Purchase of treasury shares (ordinary)	-	(1,731)	-	1,331	(400)	-	(400)
Currency translation adjustment	-	-	158	-	158	-	158
Dividends	-	-	-	(235)	(235)	-	(235)
Profit for the year	-	-	-	1,124	1,124	4	1,128
Balances as of 31 December 2002 (as restated)	**64,251**	**(35,361)**	**1,119**	**45,218**	**75,227**	**1,587**	**76,814**
Currency translation adjustment	-	-	170	-	170	-	170
Dividends	-	-	-	(219)	(219)	-	(219)
Purchase of additional shares in subsidiary	-	-	-	-	-	(526)	(526)
Purchase of subsidiaries	-	-	-	-	-	312	312
Profit for the year	-	-	-	3,034	3,034	(83)	2,951
Balances as of 31 December 2003	**64,251**	**(35,361)**	**1,289**	**48,033**	**78,212**	**1,290**	**79,502**

Supplementary (Note 2.2) **(Unaudited)** In US$ million	Share capital	Treasury shares (Notes 7.1 and 23)	Currency translation adjustment	Retained earnings	Attributable to equity holders of the Company	Minority interest (Note 2.3)	Total equity
Balances as of 31 December 2003	**2,182**	**(1,201)**	**44**	**1,631**	**2,656**	**44**	**2,700**

The statutory accounting reports of JSC AVTOVAZ (the "Company") are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For 2003, the current net statutory profit for the Company as reported in its statutory reporting forms was RR 4,655 (the year ended 31 December 2002: RR 700). However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these consolidated financial statements.

OAO AVVA, an 86 % owned subsidiary of JSC AVTOVAZ (Note 7.1), exchanged 213,812 own ordinary shares into 213,812 ordinary shares of JSC AVTOVAZ valued at RR 428 in 2002. The exchange had no material effect on minority interest.

(In millions of Russian Roubles)

1. JSC AVTOVAZ and subsidiaries

JSC AVTOVAZ and its subsidiaries' (the "Group") principal activities include the manufacture and sale of passenger automobiles. The Group's manufacturing facilities are primarily based in the Samara Oblast of Russia. The Group has a sales and service network spanning the Commonwealth of Independent States and some other countries. The parent company, JSC AVTOVAZ ("the Company" or JSC AVTOVAZ), was incorporated as an open joint stock company in the Russian Federation on 5 January 1993. At 31 December 2003 the Group employed 161,228 employees (31 December 2002: 161,148). JSC AVTOVAZ is registered at Yuzhnoye Shosse, 36, Togliatti, 445633, Russian Federation.

These consolidated financial statements have been approved for issue by the President-General Director on 21 July 2004.

2. Basis of presentation of the consolidated financial statements

These consolidated financial statements have been prepared in accordance with, and comply with International Financial Reporting Standards, including International Accounting Standards and Interpretations issued by the IASB ("IFRS").

JSC AVTOVAZ and its subsidiaries resident in the Russian Federation, which account for approximately 95% of assets and liabilities of the Group, maintain their accounting records in Russian Roubles ("RR") and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation. These financial statements are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS. Similarly, adjustments to conform with IFRS, where necessary, are recorded in the financial statements of companies not resident in the Russian Federation.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, available-for-sale financial assets are shown at fair value. The preparation of consolidated financial statements in conformity with IFRS requires management to make prudent estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements preparation and the reported amounts of revenues and expenses during the reporting period. Estimates have principally been made in respect to fair values of financial instruments, depreciation of property, plant and equipment, the impairment provisions, deferred profits taxes and the provision for impairment of receivables. Actual results could differ from these estimates.

2.1 Accounting for the effect of inflation

Prior to 1 January 2003 the adjustments and reclassifications made to the statutory records for the purpose of IFRS presentation included the restatement of balances and transactions for the changes in the general purchasing power of the RR in accordance with IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the Group no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts in these consolidated financial statements.

Corresponding figures, for the year ended 31 December 2002, were restated for the changes in the general purchasing power of the RR at 31 December 2002. The restatement was calculated using the conversion factors derived from the Russian Federation Consumer Price Index ("CPI"), published by the Russian State Committee on Statistics ("Goscomstat"), and from indices obtained from other sources for years prior to 1992. The indices used to restate corresponding figures, based on 1988 prices (1988 = 100) for the five years ended 31 December 2002, and the respective conversion factors, are:

Year	Indices	Conversion Factor
31 December 1998	1,216,400	2.24
31 December 1999	1,661,481	1.64
31 December 2000	1,995,937	1.37
31 December 2001	2,371,572	1.15
31 December 2002	2,730,154	1.00

The main guidelines followed in restating the corresponding figures were:

- All corresponding amounts, were stated in terms of the measuring unit current at 31 December 2002;
- Monetary assets and liabilities held at 31 December 2002 were not restated because they were already expressed in terms of the monetary unit current at 31 December 2002;
- Non-monetary assets and liabilities (those balance sheet items that were not expressed in terms of the monetary unit current at 31 December 2002) and components of shareholders' equity were restated from their historical cost by applying the change in the general price index from the date the non-monetary item originated to 31 December 2002;
- All items in the statement of income and cash flows were restated by applying the change in the general price index from the dates when the items were initially transacted to 31 December 2002; and
- Gains or losses that arose as a result of holding monetary assets and liabilities for the reporting period ended 31 December 2002 were included in the statement of income as a monetary gain or loss.

2. Basis of presentation of the consolidated financial statements (continued)

2.2 U.S. Dollar Translation

U.S. dollar ("US$") amounts shown in the accompanying consolidated financial statements are translated from the RR as a matter of arithmetical computation only, at the official rate of the Central Bank of the Russian Federation at 31 December 2003 of RR 29.45 = US$1 (at 31 December 2002 of RR 31.78 =US$1). The consolidated statement of income and the consolidated statement of cash flows have been translated at the average exchange rates during the year. The difference was recognized in equity. The US$ amounts are presented solely for the convenience of the reader as supplementary information, and should not be construed as a representation that RR amounts have been or could have been converted to the US$ at this rate, nor that the US$ amounts present fairly the financial position and results of operations and cash flows of the Group in accordance with IFRS.

2.3 Changes in accounting policy

The Group has early adopted IAS 27 "Consolidated and Separate Financial Statements" (revised in 2003) and accordingly changed the policy for accounting for minority interest. In prior years minority interest was presented separately from liabilities and equity. From 1 January 2002 minority interest is presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity.

In addition, the Group changed its policy with respect to the method of calculating minority interest. The Group no longer attributes minority interest relating to cross shareholdings (Note 7.1).

The Group adopted IFRS 3 "Business combinations" and accordingly changed the policy for accounting for goodwill from 1 January 2003. In prior years goodwill both positive and negative was included in intangible assets and amortised over its useful life. From 1 January 2003 negative goodwill is written off to the consolidated statement of income immediately as incurred and positive goodwill is initially recognised at cost and subsequently carried at cost less any accumulated impairment losses (Note 3.12).

3. Summary of significant accounting policies

3.1 Early adoption of standards

In 2003 the Group early adopted the IFRS below, which are relevant to its operations. The 2002 accounts have been amended as required, in accordance with the relevant requirements.

IAS 1 (revised 2003) "Presentation of Financial Statements"
IAS 2 (revised 2003) "Inventories"
IAS 8 (revised 2003) "Accounting Policies, Changes in Accounting Estimates and Errors"
IAS 10 (revised 2003) "Events after the Balance Sheet Date"
IAS 16 (revised 2003) "Property, Plant and Equipment"
IAS 17 (revised 2003) "Leases"
IAS 21 (revised 2003) "The Effects of Changes in Foreign Exchange Rates"
IAS 24 (revised 2003) "Related Party Disclosures"
IAS 27 (revised 2003) "Consolidated and Separate Financial Statements"
IAS 28 (revised 2003) "Investments in Associates"
IAS 31 (revised 2003) " Interests in Joint Ventures"
IAS 32 (revised 2003) "Financial Instruments: Disclosure and Presentation"
IAS 33 (revised 2003) "Earnings per Share"
IAS 39 (revised 2003) "Financial Instruments: Recognition and Measurement"
IFRS 2 (issued 2004) "Share-based Payments"
IFRS 3 (issued 2004) "Business Combinations"
IFRS 5 (issued 2004) "Non-current Assets Held for Sale and Discontinued Operations"
IAS 36 (revised 2004) "Impairment of Assets"
IAS 38 (revised 2004) "Intangible Assets".

The early adoption of IAS 1, 2, 8, 10, 16, 17, 21, 24, 28, 31, 32, 33 (all revised 2003) and 36 and 38 (both revised 2004) did not result in substantial changes to the Group's accounting policies.

IAS 1 and IAS 8 (all revised 2003) have affected disclosures of the Summary of significant accounting policies and other disclosures.

An effect of the early adoption of IAS 27 (revised 2003) and IFRS 3 has been discussed in Note 2.3.

IFRS 3 requires simultaneous adoption with IAS 36 and IAS 38.

The early adoption of IFRS 2 and IFRS 5 has not resulted in any changes in the consolidated financial statements.

The early adoption of IAS 39 has resulted in reclassification of all the current available for sale investments to financial assets at fair value through profit and loss and comprise RR 1,154 as at 31 December 2002 within current assets.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards.

3. Summary of significant accounting policies (continued)

3.2 Group reporting

Subsidiary undertakings

Subsidiary undertakings are those entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between the Group's companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Minority interest at the balance sheet date includes the minority shareholders' portion of the fair values of the identifiable assets and liabilities of subsidiaries at the acquisition date, and the minority's portion of movements in those subsidiaries' equity since the date of acquisition. Minority interest is presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisitions date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of net assets of the subsidiary acquired, the difference is recognised directly in the consolidated statement of income.

Associated undertakings

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20 % and 50 % of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

Unrealised gains on transactions between the Group and its associated undertakings are eliminated to the extent of the Group's interest in the associated undertakings; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Equity accounting is discontinued when the carrying amount of the investment in an associated undertaking reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated undertaking.

Joint ventures

The Group's interests in jointly controlled entities are accounted for using the equity method. The consolidated statement of income reflects the Group's share of the results of operations of the jointly controlled entity.

Equity accounting is discontinued when the Group ceases to have joint control over, or have significant influence in, a jointly controlled equity.

3.3 Investments

Financial assets at fair value through profit and loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit and loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

Realised and unrealised gains and losses arising from changes in the fair value of these financial assets are included in the consolidated statement of income in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet. Loans and receivables are carried at amortized cost using the effective interest method.

3. Summary of significant accounting policies (continued)

3.3 Investments (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the assets. Investments are initially recognised at fair value plus transactions costs for all financial assets not carried at fair value through profit and loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the consolidated statement of income as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss – is removed from equity and recognised in the consolidated statement of income. Impairment losses recognised in the consolidated statement of income on equity instruments are not reversed through the consolidated statement of income.

3.4 Borrowings issued

Borrowings are recognised initially at cost which is the fair value of the proceeds received, net of transaction costs incurred. The fair value is determined using the prevailing market rate of interest at which debt is available to borrowers. Borrowings issued by the Group are recorded at amortised cost, which is the amount of the loan when it was originally recorded net of repayments of the principal debt plus any cumulative amortisation of any difference between the initial amount and redemption amount at maturity and less any losses for impairment.

The Group holds neither trading investments, nor held-to-maturity investments.

3.5 Revenue recognition

Revenues on domestic sales of automobiles, spare parts and miscellaneous production are recognised when goods are dispatched to customers as this is the date that the risks and rewards of ownership are transferred to the customers.

Sales are shown net of VAT and discounts, and after eliminating sales within the Group.

3.6 Seasonality

Demand for finished vehicles is not significantly influenced by seasons of the year. However, there is a slight increase in demand for vehicles prior to the summer months and a decrease in demand prior to the end of calendar year. The seasonality in the demand for vehicles does not significantly influence production, inventory levels are adjusted for these movements in demand. Seasonality does not impact the revenue or cost recognition policies of the Group.

3.7 Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables and include value added taxes. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

3.8 Value added tax

Value added taxes related to sales is payable to tax authorities upon collection of receivables from customers. Input VAT is reclaimable against sales VAT upon payment for purchases. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (VAT deferred) is recognised in the balance sheet on a gross basis and disclosed separately as a current asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT. The related VAT deferred liability is maintained until the debtor is written off for tax purposes.

(In millions of Russian Roubles)

3. Summary of significant accounting policies (continued)

3.9 Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis, and includes material, labour and the appropriate indirect manufacturing costs (based on normal operating capacity). Obsolete and slow-moving inventories are written down, taking into account their expected use, to their future realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

3.10 Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents comprise short-term investments which are readily converted to cash, are not subject to significant risk of changes in value and with original maturities of three months or less.

3.11 Property, plant and equipment

Property, plant and equipment are recorded at purchase or construction cost. Property, plant and equipment purchased before 31 December 2002 were recorded at purchase or construction cost restated to the equivalent purchasing power of the RR as at 31 December 2002. At each reporting date the management assess whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's net selling price and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the consolidated statement of income. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the assets recoverable amount.

Depreciation is calculated on the restated amounts of property, plant and equipment on a straight line basis. The depreciation periods, which approximate to the estimated useful economic lives of the respective assets, are as follows:

	Number of years
Buildings	40 to 50
Foundry equipment	25
Plant, machinery and equipment	10 to 20
Other	5 to 10

Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalised and the assets replaced are retired. Gains and losses arising from the retirement of property, plant and equipment are included in the consolidated statement of income as incurred.

3.12 Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Any excess of the Group's share of the net identifiable assets over the cost of an acquisition (negative goodwill) is recognised immediately in the consolidated statement of income.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

Research and development costs

Research expenditure is recognised as an expense as incurred. Costs incurred for development projects related to a new range of vehicles are recognised as intangible assets if, and only if, it is probable that the future economic benefits that are attributable to the asset will flow to the Group and the cost of the asset can be measured reliably. Development costs with a finite useful life that have been capitalised are amortised from the commencement of the commercial production of the new vehicles on a straight-line basis over the period of their expected benefits, not exceeding three years.

3. Summary of significant accounting policies (continued)

3.13 Deferred income taxes

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method for financial reporting and accounting for deferred income taxes. Deferred income taxes are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

3.14 Borrowings and restructured taxes

Borrowings are recognised initially at cost which is the fair value of the proceeds received (which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price), net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings. All borrowing costs are expensed. Interest expense, which is currently due, is recorded within other payables, whilst other interest that accrues is included within the restructured liabilities.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

3.15 Foreign currency transactions and translation

Exchange restrictions and controls exist relating to converting the RR into other currencies. The RR is not a freely convertible in most countries outside of the Russian Federation.

Monetary assets and liabilities of the Group, which are denominated in foreign currencies at 31 December 2003, are translated into the RR at the exchange rate prevailing at that date. Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognised in the consolidated statement of income.

Foreign subsidiary balance sheets and statements of income have been translated in RR at the exchange rate ruling at 31 December 2003 and average exchange rates for the year then ended, respectively. Differences arising from translation of foreign subsidiaries' balances are included in shareholders' equity as currency translation adjustments.

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which entity operates ("the functional currency"). The consolidated financial statements are presented in Russian Roubles, which is the Company's functional and presentation currency. U.S. dollar amounts have been provided as supplementary information only.

3.16 Product warranty costs

The Group recognises the estimated liability to repair or replace products sold still under warranty at the balance sheet date. This provision is calculated based on past history of the level of repairs and replacements.

3.17 Employee benefits

Social costs

The Group incurs costs on social activities, principally within the City of Togliatti. These costs include the provision of health services and kindergartens. These amounts represent an implicit cost of employing principally production workers and, accordingly, have been charged to cost of sales in the Group's IFRS consolidated statement of income.

Pension costs

The Group's obligatory contributions to the Pension Fund of the Russian Federation are expensed as incurred.

3.18 Interest expense and interest income

Interest income and expenses are recognised on the accrual basis, as earned or incurred. Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cashflow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost-recovery basis as conditions warrant.

3. Summary of significant accounting policies (continued)

3.19 Earnings/(loss) per share

Preference shares are considered to be participating shares, as their dividend may not be less than that given with respect to ordinary shares. An earnings per share is determined by dividing the net income attributable to ordinary and preference shareholders by the weighted average number of participating shares outstanding during the reporting period. Losses are allocated to preference shares in this calculation.

3.20 Use of veksels

Veksels (promissory notes) are debt securities. The Group makes extensive use of both third party promissory notes and Group originated veksels in its operations. Bank veksels received are included in the balance sheet within cash and cash equivalents. Veksels issued by the Group, are included within trade payables until they are settled for cash.

3.21 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of income on a straight-line basis over the period of the lease.

3.22 Shareholders' equity

Treasury shares

Treasury shares are stated at nominal value, restated to the equivalent purchasing power of the RR as at 31 December 2002. Any difference between cost and nominal value on the purchase of treasury shares is recorded direct to retained earnings. Any gains or losses arising on the disposal of treasury shares are recorded direct to the consolidated statement of changes in equity.

Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared for payment before or on the balance sheet date. Dividends are disclosed in the Notes to the consolidated financial statements when they are proposed or declared for payment after the balance sheet date but before the consolidated financial statements are authorised for issue.

3.23 Provisions

Provisions are recognised when the Group has present legal or constructive obligations as a result of past events, it is probable that a significant outflow of resources will be required to settle the obligations, and a reliable estimate of the amount of the obligation can be made.

4. Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the EURO. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. Foreign exchange risk arises when future commercial transactions, recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

(b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that wholesale sales of products are made to customers with an appropriate credit history. The Group has policies that limit the amount of credit exposure to any financial institution.

(c) Liquidity risk

The Group manages its liquidity risk by maintaining sufficient cash and marketable securities and available funding through an adequate amount of committed credit facilities.

(d) Cash flow and fair value interest rate risk

The Group's interest-rate risk arises from borrowings. The majority of interest rates on debt are fixed. Existing interest rates can be changed subject to agreement by the third parties. Assets are generally non-interest bearing.

5. Critical accounting estimates and judgements

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances.

5.1 Critical accounting estimates and assumptions

5.1.1 Operating environment of the Group

The Russian Federation continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

Whilst there have been improvements in the economic trends, the future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the government, together with tax, legal, regulatory, and political developments.

5.1.2 Taxes

The Group is subject to taxes. Significant judgement is required in determining the provision for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcomes of these matters is different from the amounts that were initially recorded, such differences will impact the provisions in the period in which such determination is made.
Were the actual final outcome (on the judgement areas) to differ by 10% from management's estimates, the Group would need to:

- increase in provision for taxes by RR 200, if unfavourable; or
- decrease in provision for taxes by RR 200, if favourable.

5.1.3 Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group has no significant interest-bearing assets. The interest rates on rouble-denominated long-term borrowings range from 15.5 % to 16 %.
The Group has sufficient financial resources for settlement of its liabilities. Should interest rates change by 2-3%, then interest expense will change by the following:

- increase in interest expense by RR 340, if unfavourable; or
- decrease in interest expense by RR 340, if favourable.

5.1.4 Product warranty costs

The Group made a provision for warranties at the year end based on past experience of the level of repairs and returns.
Were the actual outcome to differ by 10% from management's estimates, the Group would need to increase provision for warranties by RR 150, if unfavourable.

5.1.5 Fair values

In assessing the fair value of non-traded financial instruments the Group uses a variety of methods including estimated discounted value of future cash flows, and makes assumptions that are based on market conditions existing at each balance sheet date.

At 31 December 2003 and 2002, the fair value of certain financial liabilities was estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments with the same remaining maturity, and is disclosed in the relevant notes to these consolidated financial statements.

5.2 Critical judgements in applying the accounting policies

5.2.1 Development costs

The Group has capitalised development costs amounting to RR 1,699 as of 31 December 2003. The Group believes that the related projects are technologically feasible and will be commercially successful. It is therefore appropriate to capitalise these development costs. The Group's net profit would be RR 1,966 in 2003 and RR 414 in 2002 if these development costs had been recognised as expenses in 2003 and 2002, respectively.

(In millions of Russian Roubles)

6. Segment reporting

The Group operates as one business segment – automobiles manufacturing – as its operations are subject to similar risks and returns.

Revenue from export of the Group's automobile production to western and eastern Europe is 9% (year ended 31 December 2002: 7%) of total revenue and the geographical segment is not identified as a reportable segment.

7. Principal subsidiaries, business combinations

The principal subsidiaries of the Group and the degree of control exercised by the Group are as follows:

Entity	Country of Incorporation	Activity	**31 December 2003 % share**	31 December 2002 % share
OAO DAAZ	Russia	Car components	**100**	100
OAO SAAZ	Russia	Car components	**100**	100
OAO AvtoVAZtrans	Russia	Transport	**100**	100
OAO TEVIS	Russia	Utilities	**100**	100
OAO SeAZ	Russia	Car assembly	**100**	100
OAO Elektroset	Russia	Power supply	**100**	100
OAO AvtoVAZstroi	Russia	Construction	**100**	100
Lada International Ltd.	Cyprus	Car distribution	**99.9**	99.9
ZAO CB Avtomobilny Bankirsky Dom	Russia	Bank services	**58.4**	36
ZAO VAZinterService	Russia	Car components	**64.8**	12.6
OAO AVVA	Russia	Investments	**86**	85
Delta Motor Group Oy	Finland	Car distribution	**100**	70
ZAO CB AFC	Russia	Financial	**58.5**	58.5
ZAO IFC	Russia	Financial	**51**	51
OOO Eleks-Polyus	Russia	Car distribution	**51**	51
125 Technical Service Centres	Russia	Car service centres	**50.1-100**	50.1-100

All of the above subsidiaries have been consolidated.

The principal associated companies and degree of ownership by the Group are as follows:

Entity	Country of Incorporation	Activity	**31 December 2003 % share**	31 December 2002 % share
FerroVAZ GmbH	Germany	Metal production	**50**	50
ZAO GM-AVTOVAZ	Russia	Vehicle production	**47.6**	47.6
Lada Hellas S.A.	Greece	Car distribution	**50**	50
Lada Parts Hellas S.A.	Greece	Spare parts distribution	**50**	50
National Trade Bank	Russia	Bank services	**19.9**	27
ZAO ASOL	Russia	Insurance	**34**	34
OASO ASTRO VOLGA	Russia	Insurance	**43**	43

ZAO GM-AvtoVAZ is a joint venture between AvtoVAZ (47,6%), GM (47,6%) and EBRD 4,8% which began production in September 2002. In 2003 the joint venture produced 25 thousand vehicles, which generated revenues of RR 4,768 and a net profit of RR 635 of which the Group's share was RR 302 (Note 17).

On 12 March 2003 the Group purchased an additional number of ordinary shares of AO Delta Motor Group. The share of the Group in this entity's capital increased to 100% (at 31 December 2002: 69.83%). No goodwill arose on earlier purchases of ordinary shares of AO Delta Motor Group. AO Delta Motor Group contributed revenues of RR 9,465 and net profit of RR 25 to the Group for the period from 1 January 2003 to 31 December 2003.

Details of net assets acquired and excess of the acquired share in the net fair value of identifiable assets and liabilities are as follows:

	RR million
Purchase consideration	
- Cash paid	68
Total purchase consideration	68
Fair value of net assets acquired	(526)
Negative goodwill	(458)

(In millions of Russian Roubles)

7. Principal subsidiaries, business combinations (continued)

The negative goodwill is attributable to the fact that the dissentient shareholder of AO Delta Motor Group decided to cease its participation in the group and accepted the bargain price RR 68.

The identifiable assets and liabilities arising from the acquisition are as follows:

	Fair value	Carrying amount
	RR million	RR million
Cash and cash equivalents	253	253
Inventory	1,524	1,524
Accounts receivable	473	473
Property, plant and equipment	1,074	1,074
Other assets	52	52
Payables	(1,417)	(1,417)
Borrowings	(216)	(216)
Net assets	1,743	1,743
Share of net assets acquired from minority shareholders	526	
Purchase consideration settled in cash		68

7.1 Cross shareholding:

At 31 December 2003 OAO AVVA, an 86% owned subsidiary of JSC AVTOVAZ, owned 38% of the ordinary shares of JSC AVTOVAZ. ZAO "Central Branch of Automobile Financial Corporation" (ZAO CB AFC), a company in which JSC AVTOVAZ has an effective ownership of 58.5%, in turn owns 24% of the ordinary shares of JSC AVTOVAZ. Furthermore, ZAO IFC, a 51% owned subsidiary of JSC AVTOVAZ, owns 2% of the ordinary shares of JSC AVTOVAZ. As a result, 64% (2002: 64%) of the ordinary voting share capital of JSC AVTOVAZ is held by entities within the AVTOVAZ Group. The shares of JSC AVTOVAZ that are owned by subsidiaries are recognised as treasury shares in these consolidated financial statements.

8. Balances and transactions with related parties

8.1 Balances with related parties:

Consolidated balance sheet caption	Relationship	**31 December 2003**	31 December 2002
Trade receivables, gross:	Associates	**271**	323
Provision for impairment of receivables:	Associates	**(7)**	(76)
Trade payables current:	Associates	**349**	295

8.2 Transactions with related parties:

Consolidated statement of income caption	Relationship	**Year ended 31 December 2003**	Year ended 31 December 2002
Net sales:	Associates	**5,477**	1,364
Purchases:	Associates	**2,911**	3,369

8.3 Directors' and Key Management's compensation:

Compensation of the Board of Directors and the Management Board is disclosed at Note 36.

9. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	31 December 2003	31 December 2002
RR denominated cash on hand and balances with banks	**5,457**	974
Foreign currency denominated balances with banks	**1,310**	1,777
	6,767	2,751

(In millions of Russian Roubles)

10. Trade receivables

	31 December 2003	31 December 2002
Trade receivables		
Rouble denominated	**5,080**	4,488
Foreign currency denominated	**2,487**	4,257
	7,567	8,745
Less Provision for impairment of receivables		
Rouble denominated	**(285)**	(361)
Foreign currency denominated	**(80)**	(137)
	(365)	(498)
Net receivable		
Rouble denominated	**4,795**	4,127
Foreign currency denominated	**2,407**	4,120
	7,202	8,247

Net trade receivables denominated in foreign currencies consist of the following:

Currency	31 December 2003	31 December 2002
Euro	**968**	986
US$	**1,201**	3,131
Other currencies	**238**	3
Total net trade receivables denominated in foreign currencies	**2,407**	4,120

11. Financial assets at fair value through profit and loss

	31 December 2003	31 December 2002
Short-term financial assets	**4,359**	1,154
	4,359	1,154

Short-term financial assets include RR 1,847 (2002: RR Nil) of commercial loans given by ZAO CB Avtomobilny Bankirsky Dom to its customers for periods less than 12 months after the balance sheet date and other current receivables of ZAO CB Avtomobilny Bankirsky Dom amounting to RR 648 (2002: RR Nil). ZAO CB Avtomobilny Bankirsky Dom was accounted for using the equity method in 2002 (Note 7). The rest of the short-term financial assets comprise principally customers' promissory notes payable within a three-month period.

As at 31 December 2003, the fair value of these assets was not materially different from the carrying value.

12. Other current assets

Other current assets consist of the following:

	31 December 2003	31 December 2002
Value-added tax	**4,268**	3,771
Prepaid expenses, advances and other receivables	**2,231**	1,737
	6,499	5,508

13. Inventories

Inventories consist of the following:

	31 December 2003	31 December 2002
Raw materials	**11,425**	9,355
Work in progress	**3,518**	3,064
Finished products	**4,066**	6,065
	19,009	18,484

(In millions of Russian Roubles)

13. Inventories (continued)

Inventories are recorded net of obsolescence provision of RR 551 at 31 December 2003 (31 December 2002: RR 524).

14. Property, plant and equipment

Property, plant and equipment and related accumulated depreciation consist of the following:

	Buildings	Plant and equipment	Other	Assets under construction	Total
Cost					
Balance at 31 December 2001	71,626	106,814	10,349	14,846	203,635
Additions	-	-	-	10,056	10,056
Disposals	(2,179)	(2,876)	(308)	(1,185)	(6,548)
Transfers	1,228	4,261	830	(6,319)	-
Balance at 31 December 2002	70,675	108,199	10,871	17,398	207,143
Additions	-	-	-	11,534	11,534
Disposals	(584)	(1,726)	(556)	(296)	(3,162)
Transfers	1,029	7,860	387	(9,276)	-
Balance at 31December 2003	**71,120**	**114,333**	**10,702**	**19,360**	**215,515**
Accumulated Depreciation					
Balance at 31 December 2001	(30,897)	(59,732)	(9,581)	(5,970)	(106,180)
Depreciation expense for 2002	(1,750)	(3,662)	(457)	-	(5,869)
Disposals	790	1,803	179	615	3,387
Reversal of impairment loss	1,098	-	-	804	1,902
Balance at 31 December 2002	(30,759)	(61,591)	(9,859)	(4,551)	(106,760)
Depreciation expense for 2003	(1,736)	(4,334)	(223)	-	(6,293)
Disposals	136	1,015	236	-	1,387
Reversal of impairment loss	-	-	-	501	501
Balance at 31 December 2003	**(32,359)**	**(64,910)**	**(9,846)**	**(4,050)**	**(111,165)**
Net Book Value					
Balance at 31 December 2001	40,729	47,082	768	8,876	97,455
Balance at 31 December 2002	39,916	46,608	1,012	12,847	100,383
Balance at 31 December 2003	**38,761**	**49,423**	**856**	**15,310**	**104,350**

Assets Under Construction ("AUC") includes the cost of fixed assets which have yet to be put into production. The majority of the transfers out from AUC were placed in service and transferred into Buildings and Plant and Equipment. The balance of accumulated depreciation of AUC as at 31 December 2002 of RR 4,551 includes an impairment provision made in prior years against construction projects started but not expected to be completed as well as a provision against the construction of properties to be used by the local community.

At 31 December 2003, management estimates that the impairment loss related to AUC has decreased by RR 501. This relates to buildings previously taken out of use which are now being converted to production. This amount was recorded as a reversal of the impairment provision for AUC in the consolidated financial statements for the year ended 31 December 2003.

The assets transferred to the Company upon privatisation do not include the land on which the Company's factory and buildings, comprising the Group's principal manufacturing facilities, are situated. Until 11 December 2001 the land on which the Group's manufacturing facilities are situated was provided to JSC AVTOVAZ by local authorities for unlimited use. As a result of changes in existing legislation, on 11 December 2001 rental agreements were made with local authorities in relation to this land for the period of 49 years. Lease payments for land related to Group's production facilities are dependent on land tax rate and can be changed subject to agreement by the third parties. The future aggregate minimum lease payments under non-cancellable operating leases of land are disclosed in note 34.1.

(In millions of Russian Roubles)

14. Property, plant and equipment (continued)
Included in Property, plant and equipment and AUC are properties used by the local community (such as rest houses, kindergartens, sports and medical facilities) at a gross carrying value of RR 4,106 and RR 4,075 as of 31 December 2003 and 31 December 2002, respectively. These properties are fully provided for.

At 31 December 2003 and 31 December 2002, the gross carrying value of fully depreciated property, plant and equipment was RR 47,856 and RR 46,630, respectively.

15. Development costs

	Development costs
Year ended 31 December 2002	
Opening net book amount	-
Additions	714
Closing net book amount	714
At 31 December 2002	
Cost	714
Accumulated amortisation and impairment	-
Net book amount	714
Year ended 31 December 2003	
Opening net book amount	714
Additions	985
Closing net book amount	1,699
At 31 December 2003	
Cost	1,699
Accumulated amortisation and impairment	-
Net book amount	**1,699**

Development costs relating to a new range of vehicles amounting to RR 985 (2002: RR 714) were capitalised in 2003.

16. Available-for-sale financial assets

	2003	2002
Beginning of the year	**466**	305
Additions	**1,162**	125
Impairment loss	**(584)**	-
Revaluation surplus	**-**	92
Disposals	**(369)**	(56)
End of the year	**675**	466

Available-for-sale financial assets are principally non-marketable equity securities, which are not publicly traded or listed on the Russian stock exchange and borrowings issued by the Group with maturity period of more than one year.

17. Investments in associates and joint ventures

	2003	2002
Beginning of the year	**754**	478
Additions	**-**	252
Share of income	**333**	24
Disposals	**(221)**	-
End of the year	**866**	754

Disposals relate to derecognition of ZAO CB Avtomobilny Bankirsky Dom as an associate and its consolidation as a subsidiary from January 2003 (Note 7).

(In millions of Russian Roubles)

17. Investments in associates and joint ventures (continued)

The Group has a 47.6 % interest in a joint venture, ZAO GM-AvtoVAZ. The following amounts represent the assets and liabilities, and sales and results of the joint venture, which have been consolidated using the equity method:

	2003	**2002**
Assets:		
Non-current assets	**6,402**	4,727
Current assets	**2,718**	1,025
Liabilities		
Long-term liabilities	**11**	2
Current liabilities	**2,876**	152
Net assets	**6,233**	5,598
Income	**4,768**	58
Expenses	**(4,133)**	(286)
Profit after income tax	**635**	(228)

There are no contingent liabilities relating to the Group's interest in the joint venture, and no contingent liabilities of the venture itself.

18. Trade payables current

	2003	**2002**
Trade payables	**17,146**	17,149
Payables to associated undertakings	**349**	295
	17,495	17,444

Trade payables include RR 611 (2002: RR nil) of customers' current and settlement accounts and short-term deposits in ZAO CB Avtomobilny Bankirsky Dom. ZAO CB Avtomobilny Bankirsky Dom was accounted for using equity method in 2002 (Note 7).

19. Other payables and accrued expenses

Other payables and accrued expenses includes the following:

	31 December 2003	31 December 2002
Bills of exchange payable	**1,210**	2,077
Vacation and salary accruals	**1,154**	1,302
Payable to customs authorities	**332**	117
Salaries payable	**721**	1,070
Accrued interest	**300**	1,536
Income tax liability	**18**	2,466
Other	**2,008**	1,423
Total	**5,743**	9,991

During 2003, interest payable of US$ 56 million on the loan from Vnesheconombank was restructured. For details of this restructuring, see Note 21.

Other payables include RR 533 (2002: RR nil) of individual customers' short-term deposits in ZAO CB Avtomobilny Bankirsky Dom. ZAO CB Avtomobilny Bankirsky Dom was accounted for using equity method in 2002 (Note 7).

In 2000 the Group accrued a liability of RR 2,454 in respect of claims raised by the tax authorities for profits taxes. After a series of court hearings, legal proceedings were decided in JSC AVTOVAZ's favour by June 2003. As a result, the liability was derecognised and related gain for the entire amount was recorded under the heading Income tax credit/(expense).

(In millions of Russian Roubles)

20. Provisions

During 2003 the following movements of provisions took place:

	Warranties	Legal and other claims	Retirement benefits provision	Total
Balance at 31 December 2002	1,549	290	350	2,189
Utilised	(1,278)	(297)	(186)	(1,761)
Released	-	(153)	(38)	(191)
Additional provisions	1,227	160	108	1,495
Balance at 31 December 2003	**1,498**	**-**	**234**	**1,732**

All provisions are made up for not more than 1 year.

Warranties

The Group undertakes to repair vehicles or replace certain components that fail to perform satisfactorily during two years after sale or until a mileage of 35,000 kilometres is reached. A provision of RR 1,498 (2002: RR 1,549) is made at the year end based on past experience of the level of repair and returns.

Legal and other claims

In 2002 the Group recorded a provision for a claim submitted by Vittorio-Martorelli (Italy) against the Company in the amount of RR 290 for the termination of the Agency agreement signed in 1999. In the year ended 31 December 2003 the Group recorded an additional provision for a claim submitted by Lada Bulgaria against the Company in the amount of RR 160 for violating exclusive vehicle distribution rights. Final court decisions for both cases were received before 31 December 2003 and the provisions were partly utilised with unutilised portion being released.

Retirement benefits provision

In 2002, the Group recorded a provision for retirement benefits amounting to RR 350. By undertaking to pay these benefits the Group encourages voluntary redundancy of employees who reach retirement age during 2003. During the year ended 31 December 2003 the Group utilised RR 186 of the provision for retirement benefits.

21. Short-term and long-term debt due after one year

Short-term debt by currency of loan consists of the following:

Currency	Effective interest rate	**31 December 2003**	31 December 2002
RR	16%-18%	**11,805**	6,437
US$	12%	**29**	1,067
Euro	12%	**18**	1,792
Total loans from financial institutions		**11,852**	9,296

Short-term debt in RR comprises loans at fixed interest rates.

Long-term debt by currency of loan consists of the following:

Currency	Effective interest rate	**31 December 2003**	31 December 2002
RR	15.5%-16%	**2,986**	968
Euro	12%	**45**	2,690
US$	7%	**7,069**	347
CHF	9%	**487**	-
Total loans from financial institutions		**10,587**	4,005

Long-term debt comprises loans denominated in USD of RR 7,069 at a 7 % fixed interest rate and RR denominated loans at fixed rates.

(In millions of Russian Roubles)

21. Short-term and long-term debt due after one year (continued)

Long-term debt is repayable as follows:

	31 December 2003	31 December 2002
1 to 2 years	**2,748**	1,530
2 to 3 years	**7,227**	564
3 to 4 years	**158**	593
4 to 5 years	**58**	374
Over 5 years	**396**	944
	10,587	4,005

During 2003 management restructured and subsequently extinguished liabilities denominated in US$ and in Euro amounting to RR 5,852 (including liabilities to the Ministry of Finance restructured as of 31 December 2002) to Vnesheconombank and the Ministry of Finance of the Russian Federation.

As at 31 December 2003 and 31 December 2002 loans for RR 7,832 and RR 8,348, respectively, inclusive of short-term borrowings, are guaranteed by collateral of receivables, inventories and equipment.

As at 31 December 2003, the fair value of these liabilities was estimated to be RR 10,982 using current market interest rates ranging between 17% and 18%. As at 31 December 2002, the fair value of these liabilities was estimated to be RR 4,005.
The Group has not entered into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures.

22. Taxation

Current taxes payable other than income tax

Current taxes payable are comprised of the following:

	31 December 2003	31 December 2002
Current portion of taxes restructured to long-term	**1,021**	965
Property, road users, pensions and other taxes	**986**	802
Penalties and interest on property, pensions and other taxes of the Group	**655**	674
Value-added tax	**1,226**	185
Social taxes	**401**	301
	4,289	2,927

The principal tax liabilities past due accrue interest each day at one three hundredth of the current refinancing rate of the Central Bank of Russia which, at 31 December 2003 was equal to an effective rate of 18% (2002: 26%). The principal tax liabilities (interest, penalties) past due at 31 December 2003 and 31 December 2002 were approximately RR 40 and RR 144 respectively.

Long-term taxes payable

Long-term taxes payable comprise various taxes payable to the Russian Government which were previously past due and which have been restructured to be repaid over a period of up to 10 years following the application of the Russian Government Resolutions No. 1002 dated 3 September 1999 "Terms of the restructuring of payables to the Federal Budget" and No. 927 dated 29 December 2001 "On changes of terms of JSC AVTOVAZ's tax liabilities and accrued fines and interest payable to the Federal Budget", as discussed further.

(In millions of Russian Roubles)

22. Taxation (continued)

The carrying value of this debt and its maturity profile is as follows:

	31 December 2003	31 December 2002
Current	**1,021**	965
1 to 2 years	**708**	809
2 to 3 years	**1,320**	566
3 to 4 years	**272**	1,034
4 to 5 years	**215**	212
Thereafter	**1,890**	1,870
Total restructured	**5,426**	5,456
Less: portion of current taxes payable	**(1,021)**	(965)
Long-term portion of restructured taxes	**4,405**	4,491

The above liability is carried at historical cost, which is the fair value of the obligation at the date of restructuring. This is calculated by discounting the restructured liability using discount rates ranging between 21% and 30%.

In the event of the Company fails to make current tax payments and payments of restructured tax liabilities by the end of each quarter, the Ministry of Taxes and Duties may, within one month, recommend to the Government to cancel the restructuring agreement and call the entire liability.

As at 31 December 2003, fair value of these liabilities was estimated to be RR 5,670 using current market interest rates ranging between 17% and 18%. As at 31 December 2002, fair value of these liabilities was estimated to be RR 5,970.

The Company is in compliance with the terms of restructuring the federal, regional and local tax debts at 31 December 2003.

23. Share capital

The carrying value of share capital and the legal share capital value subscribed, issued and fully paid up, consists of the following classes of shares:

	31 December 2003			31 December 2002		
	No. of shares	**Legal statutory value**	**Carrying amount**	No. of shares	Legal statutory value	Carrying amount
Class A preference	4,930,340	2,465	9,861	4,930,340	2,465	9,861
Ordinary	27,194,624	13,597	54,390	27,194,624	13,597	54,390
Total share capital	32,124,964	16,062	64,251	32,124,964	16,062	64,251
Less: treasury share capital						
Class A preference	(312,697)	(156)	(625)	(312,697)	(156)	(625)
Ordinary	(17,367,655)	(8,684)	(34,736)	(17,367,655)	(8,684)	(34,736)
Total treasury share capital	(17,680,352)	(8,840)	(35,361)	(17,680,352)	(8,840)	(35,361)
Total outstanding share capital	**14,444,612**	**7,222**	**28,890**	14,444,612	7,222	28,890

Ordinary shares give the holders the right to vote on all matters within the remit of the General Shareholders' Meeting.

(In millions of Russian Roubles)

23. Share capital (continued)

Class A preference shares give the holders the right to participate in general shareholders' meetings without voting rights except in instances where decisions are made in relation to re-organisation and liquidation of the Company, and where changes and amendments to the Company's charter which restrict the rights of preference shareholders are proposed. Preference shares obtain the right to vote on all matters within the remit of the General Shareholders' Meeting if at the previous Annual Shareholders' Meeting it was decided not to pay a dividend on preference shares even though the Company had statutory net profit for the year.

Preference shareholders are equally entitled to dividends along with holders of ordinary shares on the basis of a resolution of the General Shareholders' Meeting. A resolution regarding the payment and the amount of dividends is taken by the General Shareholders' Meeting upon recommendations of the Board of Directors in view of financial results for the year.

If the dividend paid on one ordinary share in the current year exceeds the dividend that is payable on one preference share, then the dividend paid on one preference share should be increased to the dividend paid on one ordinary share. As such, the preference holders share in earnings along with ordinary holders and thus the preference shares are considered participating shares for the purpose of the calculation of earnings per share.

In 2003, a dividend was declared and is being currently paid in respect of 2002 to holders of preference shares of RR 17 per preference share (2002: RR 47.58) and to holders of ordinary shares of RR 5 per ordinary share (2002: nil).

24. Net sales revenue

Net sales revenue comprises:

	2003	2002
Finished vehicles	**105,287**	95,023
Automotive components and assembly kits	**18,139**	17,857
Other sales	**7,346**	6,552
	130,772	119,432

25. Cost of sales

Cost of sales comprises:

	2003	2002
Materials and components used	**81,147**	76,403
Labour costs	**13,831**	14,010
Production overheads	**6,956**	6,953
Depreciation	**6,293**	5,869
Social expenditure	**732**	1,427
Reversal of impairment loss on property, plant and equipment (Note 14)	**(501)**	(1,902)
Changes in inventories of finished goods and work in progress	**1,545**	(3,429)
	110,003	99,331

26. Administrative expenses

Administrative expenses comprise:

	2003	2002
Labour costs	**3,376**	3,398
Transportation	**569**	581
Other local and regional taxes	**1,645**	1,982
Materials	**597**	353
Provision for impairment of receivables	**110**	(55)
Repair expenses	**176**	143
Consultants' fees	**205**	461
Bank services	**244**	203
Other	**1,754**	1,980
	8,676	9,046

(In millions of Russian Roubles)

27. Research and development expenses

Research and development expenses comprise:

	2003	2002
Labour costs	**290**	630
Materials	**171**	366
Other	**167**	429
	628	1,425

28. Other operating expenses

Other operating expenses comprise:

	2003	2002
Provisions and settlements of claims and similar charges	**121**	18
Write-off or loss on disposal of property, plant and equipment	**510**	229
Loss on disposal of investments	**256**	156
Charitable donations	**68**	355
Impairment loss on available-for-sale financial assets	**584**	-
Other	**315**	177
	1,854	935

29. Labour expenses

Labour expenses included in different captions of the consolidated statement of income were as follows:

	2003	2002
Cost of sales	**13,831**	14,010
Administrative expenses	**3,376**	3,398
Distribution costs	**321**	146
Research and development expenses	**290**	630
	17,818	18,184

Labour expenses comprise wages, salaries, bonuses, payroll taxes, termination costs, vacation and salary accruals.

30. Finance costs –net

Finance costs charged to the consolidated statement of income comprise:

	2003	2002
Interest expense	**(3,416)**	(3,077)
Foreign exchange loss	**(617)**	(1,266)
Gains on forgiveness of tax interest	**325**	-
Monetary gain	**-**	4,187
Gains on restructuring of debt	**-**	601
	(3,708)	445

During 2002, management negotiated the restructuring of the liability of EURO 53 million to the Ministry of Finance. This amount is restructured over the period of 2003-2011. This restructuring constituted a substantial modification in terms of the difference between the recorded value of that liability prior to restructuring and the present value of the future cash flows of the restructured liability. The difference between the recorded value and the fair value of the liability at the date of restructuring was accounted as a gain of RR 601 on restructuring in the Group's 2002 consolidated statement of income.

During 2003 a number of Group's subsidiaries in Russia were granted forgiveness of interest on taxes due in accordance with the Tax Code.

(In millions of Russian Roubles)

31. Income tax credit/(expense)

	2003	2002
Income tax expense – current	**(2,007)**	(1,880)
Gain on derecognition of income tax liability	**2,454**	-
Movement in deferred tax account	**(62)**	(3,052)
Income tax credit/(expense)	**385**	(4,932)

The tax charge of the Group is reconciled as follows:

	2003	2002
IFRS profit before taxation in the Group's consolidated financial statements	**2,566**	6,060
Theoretical tax charge at statutory rate of 24% (2002: 24%)	**(616)**	(1,454)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Tax penalties and interest	**(394)**	(329)
Non-temporary elements of monetary gains/losses	**-**	(2,714)
Non-deductible expenses, net	**(730)**	(755)
Gain on derecognition of income tax liability (Note 19)	**2,454**	-
Other	**(329)**	(693)
Inflation effect on deferred tax balance at the beginning of the year	**-**	1,013
Income tax expense/(credit)	**385**	(4,932)

In general during 2003 the Group was subject to tax rates of approximately 24% on taxable profits. Income tax rate of 24% has been enacted starting from 1 January 2002 as a result of the changes in the Russian tax legislation. Deferred tax assets/liabilities are measured at the rate of 24% as at 31 December 2003 (24% as at 31 December 2002).

Deferred tax liabilities

	31 December 2001	**Movement in the year**	**31 December 2002**	**Movement in the year**	**31 December 2003**
Tax effects of temporary differences:					
Provisions on trade receivables	42	125	167	(67)	**100**
General and overhead expenses allocation on inventories	39	20	59	(120)	**(61)**
Effect of property, plant and equipment impairment	1,285	(193)	1,092	(120)	**972**
Effect of inflation and different depreciation rates of property, plant and equipment	(7,870)	(2,921)	(10,791)	190	**(10,601)**
Fair value adjustment to investments	429	(331)	98	162	**260**
Accounts payable and provisions (vacation and annual leave accruals)	441	245	686	(110)	**576**
Discounting of long-term debt	(2,485)	169	(2,316)	167	**(2,149)**
Other temporary differences	409	(166)	243	(164)	**79**
Deferred tax liability	(7,710)	(3,052)	(10,762)	(62)	**(10,824)**

As at 31 December 2003 the Group has no subsidiaries which have deferred tax assets.

At 31 December 2003 the Company has available Russian tax losses amounting to RR 343. These will offset future taxable profits by 2013. The maximum offset in each year is limited to 30% of the total taxable profit of the year.

(In millions of Russian Roubles)

32. Earnings per share

Earnings per share is calculated by dividing the net income attributable to participating shareholders by the weighted average number of ordinary and preference shares in issue during the period, excluding the average number of ordinary shares purchased by the Company and held as treasury shares (see Note 23).

	2003	2002
Weighted average number of preference shares outstanding (thousands)	4,930	4,930
Weighted average number of ordinary shares outstanding (thousands)	27,195	27,195
Adjusted for weighted average number of treasury shares (thousands)	(17,680)	(17,145)
Weighted average number of ordinary and preference shares outstanding (thousands)	14,445	14,980
Net income	3,034	1,124
Earnings per share, (basic/diluted) (in RR)	210	75

There are no dilution factors therefore basic earnings per share equal to diluted earnings per share.

33. Barter transactions

There were no non-cash transactions during the year ended 31 December 2003 (year ended 31 December 2002: RR 1,104).

34. Contingencies, commitments and guarantees

34.1 Contractual commitments and guarantees

As at 31 December 2003 the Group had contractual commitments for the purchase of property, plant and equipment from third parties for RR 959 (31 December 2002: RR 934).

Other than these commitments, there are no other commitments and guarantees in favour of third parties or related companies that were not disclosed in these consolidated financial statements.

The future aggregate minimum lease payments under non-cancellable operating leases of land are as follows:

	2003	2002
Not later than 1 year	**259**	259
Later than 1 year and not later than 5 years	**709**	709
Later than 5 years	**811**	811
	1,779	1,779

34.2 Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in its interpretation of the legislation and assessments. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

As at 31 December 2003 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these consolidated financial statements.

34.3 Insurance policies

The Group holds no insurance policies in relation to its assets, operations, or in respect of public liability or other insurable risks, with the exception of insurance policies covering export shipments and for all events subject to mandatory insurance. No provisions for self-insurance are included in the accompanying consolidated balance sheet.

34. Contingencies, commitments and guarantees (continued)

34.4 Environmental matters

The enforcement of environmental regulation in Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Expenditures which extend the life of the related property or mitigate or prevent future environmental contamination are capitalised. Potential liabilities which might arise as a result of changes in existing regulations, civil litigation or changes in legislation or regulation cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believe that there are no significant liabilities for environmental damage.

34.5 Legal proceedings

During 2003, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding which could have a material adverse effect on the result of operations or financial position of the Group, other than those discussed in Note 20.

35. Financial instruments and financial risk factors

35.1 Credit risk

Financial assets, which potentially subject the Group to concentrations of credit risk, consist principally of trade receivables. Although collection of receivables could be influenced by economic factors, management believe that there is no significant risk of loss to the Group beyond the allowance already recorded.

35.2 Foreign exchange risk

The Group's manufacturing operation is in the Russian Federation with limited imports of raw materials and components. Revenue from export of the Group's automobile production to western and eastern Europe is 9% (year ended 31 December 2002: 7%) of total revenue, these sales are denominated in hard currency. Net foreign currency receivables amount to RR 2,407 (31 December 2002: RR 4,120). The Group has debt obligations of RR 7,648 (31 December 2002: RR 5,896) denominated in hard currency.

35.3 Interest rate risk

The majority of interest rates on debt are fixed, these are disclosed in Note 21. Existing interest rates can be changed subject to agreement by the parties. Assets are generally non-interest bearing.

36. Compensation of the Key Management - Board of Directors and the Management Board

Total compensation of the members of the executive bodies (the Board of Directors composed of 12 members and the Management Board composed of 45 members) included in Administrative expenses in the consolidated statement of income amounted to RR 35 for the year ended 31 December 2003 (2002: RR 35).

37. Post balance sheet events

On 18 February 2004, the Company completed the issue of RR 3,000 Rouble denominated documentary coupon bearer bonds of Series 02 (State Number 4-02-00002-A of 14 October 2003). The bonds are issued at par value and mature in 4.5 years. These bonds carry 9 half yearly coupons. The rate of the first coupon, which was determined at the auction, was 11.78% per annum, the second coupon's rate is 11.28%, the rate of the third coupon is 10.78%. The rates of other coupons are determined by the issuer.

The Annual Shareholders' Meeting in May 2004 voted for the payment of dividends of RR 6 per ordinary share and RR 95 per preference share in respect of 2003 financial results.